Article 06:

From Fragmentation to Integration:

THE PROMISE SOMALIA'S UNIFIED PAYMENT SYSTEM

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Introduction:

In 2021, the Central Bank of Somalia took a landmark step by establishing the National Payment System (NPS) – a foundational reform aimed at modernizing the country's financial infrastructure. Simply put, the NPS is a framework that allows all licensed commercial banks in Somalia to send and receive money from each other securely and in real time, much like how a highway network connects previously isolated towns.

Building on this foundation, January 2025 saw the launch of the Somalia Instant Payment System (SIPS), a digital platform operated by the Somali Payment Switch (SPS). SIPS is the practical, consumer-facing expression of the NPS – the technology that actually moves money instantly between banks, mobile wallets, and businesses across the country. Together, the NPS and SIPS represent Somalia's most ambitious effort yet to bring its financial sector into the modern era.

The Problem:

A FRAGMENTED FINANCIAL LANDSCAPE

To understand why these reforms, matter, it helps to appreciate how difficult financial transactions were in Somalia before the NPS. The country's banking sector operated largely in silos with each institution running its own systems with little ability to communicate with others. Sending money from one bank to another often-meant physical cash transfers, manual processing, or relying on informal intermediaries. This fragmentation created four interlocking problems:

LIMITED CONNECTIVITY AMONG FINANCIAL INSTITUTIONS:

Banks, mobile money operators, and other financial service providers had no shared infrastructure. A customer at Bank A could not easily send money to someone at Bank B – let alone to a mobile wallet.

DELAYS IN TRANSACTION PROCESSING:

Without real-time systems, transactions could take days to settle, creating uncertainty for businesses and individuals who needed funds quickly.

INEFFICIENT CASH FLOW MANAGEMENT:

Businesses struggled to track and manage their money accurately when transfers were slow and unreliable, making financial planning difficult.

ISOLATION FROM REGIONAL AND INTERNATIONAL NETWORKS:

Somalia's payment systems were not connected to broader African or global financial networks, leaving businesses and banks cut off from international trade and remittance flows.

These were not merely technical inconveniences. They represented a real barrier to economic growth – limiting entrepreneurship, discouraging investment, and forcing many Somalis to rely on cash or informal money transfer networks.

OPPORTUNITIES

At its core, the new system enables continuous financial transfers among banks, mobile wallets, and point-of-sale terminals, creating, for the first time, a seamless national payment network. This interoperability means that service providers no longer operate in isolation; instead, they are nodes in a connected system. The practical benefits differ across three main groups of users.

FOR BUSINESSES

Large commercial transactions, those exceeding $10,000, can now be settled through a mechanism called Real-Time Gross Settlement (RTGS). In plain terms, this means a business can transfer funds directly from its own bank account to a supplier's account instantly, without the delay or risk of batch processing. This is critical for importers, contractors, and any enterprise that needs to pay large invoices promptly. The certainty and speed of settlement also reduce the risk that funds will be tied up in transit.

FOR INDIVIDUALS

Perhaps the most impactful change for ordinary Somalis is the ability to send money across different service providers. Under the old system, a person using one mobile money platform could only easily transact with others on the same platform. Now, an individual can transfer funds from their mobile wallet directly to any bank account within the national system, regardless of which provider they use. This flexibility empowers people in rural and underserved areas who rely on mobile money but need to interact with the formal banking sector.

FOR CROSS-BORDER TRANSACTIONS

Looking further ahead, the system is designed to eventually support cross-border payments. This would reduce Somalia's dependence on foreign exchange intermediaries and enable more efficient international trade and remittances, a particularly important feature given how central remittance flows are to the Somali economy. This capability is not yet operational, but the infrastructure being built today is designed to accommodate it.

Recommendations

01 STRENGTHEN THE CENTRAL BANK'S COORDINATION ROLE

Effective payment systems especially those designed for future cross-border use depend on strong central bank leadership. The Central Bank of Somalia should establish clear standards for messaging, compliance, and liquidity management to ensure all participants can interoperate reliably. Crucially, banks need access to central bank funds to settle transactions immediately. Without this, institutions may resort to informal bilateral arrangements, introducing fragility and systemic risk into the very infrastructure the NPS was designed to replace.

02 INTEGRATE ALL MOBILE WALLET PROVIDERS

Mobile money is the primary financial tool for millions of Somalis. Each mobile wallet provider must integrate its systems with the Somali Payment Switch (SPS) to enable genuine instant payment across the full ecosystem. Without this step, the promise of universal financial access remains incomplete.

03 MANDATE UNIVERSAL PARTICIPATION

The system's value increases with every participant that joins it. All licensed financial institutions should be required to connect to the NPS and no institution should be permitted to disconnect from the infrastructure once integrated. A patchwork system with opt-outs would recreate the fragmentation that these reforms were designed to overcome.

04 ENSURE SETTLEMENT CERTAINTY

For real-time payments to work reliably, every financial institution must maintain sufficient funds in its central bank settlement account at all times. This ensures that when a payment is initiated, it can be completed immediately without failure or delay – a non-negotiable requirement for trust in the system.

05 STANDARDIZE PAYMENT FLOWS

Receiving banks should credit beneficiary accounts the instant a payment arrives. Similarly, outgoing payments should trigger a real-time balance check before funds are released, preventing overdrafts and rejected transactions. These standards create predictability and confidence for both senders and recipients.

06 ADOPT INTERNATIONAL TECHNICAL AND REGULATORY STANDARDS

On the technical side, Somalia should implement ISO 20022, the global standard for financial messaging. This rich, structured data format improves communication between systems and eliminates ambiguities that can cause failed or misdirected payments. It also positions Somalia to connect more easily with international payment networks in the future. On the regulatory side, standardizing frameworks for Know Your Customer (KYC) requirements and Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) compliance will help ensure that the system is used safely and legally, and will increase confidence among international partners.